

This record is a partial extract of the original cable. The full text of the original cable is not available.

050959Z Aug 05

C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 004598

SIPDIS

SENSITIVE

TREASURY FOR INTERNATIONAL AFFAIRS - CPLANTIER  
NSC FOR MCKIBBEN

E.O. 12958: DECL: 08/03/2009

TAGS: [EFIN](#) [PGOV](#) [PREL](#) [EINV](#) [EU](#) [TU](#)

SUBJECT: MINISTER BABACAN ON EU, IMF

REF: ANKARA 4530

Classified By: Charge d'Affaires Nancy McEldowney for reasons 1.4(b) and (d).

1. (C) Summary: In his first meeting with the Charge, Minister of Economy--and now EU negotiator--Babacan painted a typically rosy picture of the GOT's role, claiming the IMF program was really the Government's, and asserting the program was effectively on track despite the delays in key reform legislation. On the EU, he claimed he would be able to handle his new job because the IMF structural conditionality is front-loaded, and criticized as unfair the addition of a Cyprus condition to begin accession talks. On investment issues, he cited the prospect for higher Foreign Direct Investment flows beginning this year. When the Charge raised the Motorola case, Babacan urged Motorola to settle with the Savings Deposit Insurance Fund (SDIF). End Summary.

It's Not The IMF's Program--its Ours:

2. (C) In a first meeting with the Charge d'Affaires, State Minister of Economy Ali Babacan, accompanied by Treasury Under Secretary Canakci and Director of Foreign Economic Relations Akcay, reiterated a number of standard GOT lines. He rejected the term, "IMF program," insisting it was the Government's program and claiming the broad outlines of the program can be found in the AK Party's pre-election program in 2002. (Comment: Though they may have mentioned the need for some of the reforms in their 2002 program, this version of history ignores three years of constant wobbling on reforms, requiring frequent calls to order from the IMF. End Comment.) Using another favorite GOT talking point, Babacan said that the last IMF program was the first one in Turkey that was completed, whereas eighteen previous IMF programs had been started but none completed. As he has stated before, Babacan said the importance of the IMF role stems from its policy endorsement rather than the financing per se. He asserted that with the Turkish state making \$200 billion of interest and principal payments in a year, the \$3 to \$4 billion coming from the Fund in a single year is less important than the pricing impact on Treasury's other debt arising from the IMF blessing.

3. (SBU) Babacan cited a number of Turkey's recent accomplishments: the successful introduction of a new currency, the reduction of inflation to single digits for the first time in a generation and bringing the public debt ratio roughly into line with that of the U.S., though he admitted it was still high for a developing country. (Comment: Though these are all watershed achievements in Turkey's recent economic history, for which the GOT deserves some credit, the first two were much more the work of the independent central bank than the GOT. End Comment.)

4. (SBU) The Charge encouraged the GOT to pass the social security reform legislation quickly, preferably in September, which would put Turkey in a more favorable position going into the October 3 planned start of EU accession talks. Babacan agreed, but worried about the opposition CHP engineering a repeat of its blocking tactics at the end of the last parliamentary session in June. He explained how that members of parliament who are not members of the Budget and Planning Commission have the right to speak at any Commission proceeding. CHP took advantage of this, packing Commission hearings and speaking until late every night in order to slow down the proceedings (i.e. a Turkish filibuster). At that rate, he said it could have taken a year to pass the legislation. With the political temperature rising, the GOT decided to allow parliament to go into recess and resume work on the legislation in the fall. He also said the GOT has to

take  
care to keep its own party members on board to pass the  
legislation.

15. (SBU) In any case, Babacan said it was "our wish" to call back parliament early, in mid-September, to pass the required legislation. Babacan said an IMF mission is coming out the second week in September to begin work on the second review. The Fund and GOT have not yet decided whether to try to do the first and second reviews simultaneously or do them separately.

EU Reforms Good for Turkey and the Region:  
-----

16. (C) Babacan emphasized that the reforms relating to the EU accession process were good for Turkey in and of themselves: "we're not doing it for the label." Babacan admitted Turkey needed "externalities" to maintain the dynamics of reform: "it provides a kind of peer pressure to keep us on track." He asserted that Turkey had already completed important reforms related to the judiciary, rule of law, and democracy to meet the Copenhagen Criteria, "and we are already benefiting from it."

17. (C) Very likely out of a desire to tell us what we want to hear, Babacan claimed Turkey's reforms could have an important effect in the region. Though Turkey did not want to be considered a model, he thought Turkey's reforms "sent the right kind of message" and were being watched. He claimed, for example, that over a hundred Arab journalists were in Brussels on December 17, 2004, and that Al-Jazeera for the first time broadcast a soccer match between two Turkish teams. "We believe we have an important mission."

EU Next Steps:  
-----

18. (C) Meeting with the Charge on the day before the GOT signed the additional protocol, Babacan would not be drawn on the content of Turkey's accompanying declaration in which it spelled out its non-recognition of the Republic of Cyprus. He said the text was "notorious" because "no one knew what was in it." He also said that Deputy Prime Minister and Foreign Minister Gul retained responsibility for the "political side" of the EU issue. Taken together these two comments suggest Babacan was probably not involved in GOT discussions of the wording of the declaration.

19. (C) In reply, the Charge encouraged the GOT to make Turkey's candidacy as attractive as possible to the EU. By getting the EU to realize Turkey's attractiveness as an enlargement country, Turkey's candidacy could be decoupled from the Cyprus issue. Babacan said the protocol needed to be signed early enough to give member governments time to digest it well in advance of an informal EU meeting September 1-2. In terms of next steps, Babacan said that aside from Turkey signing the additional protocol, the EU member states needed to approve the negotiating framework. Turkey was not happy with the negotiating framework, especially the part relating to Cyprus. Babacan repeated the GOT view that it was unfair for the EU to add a new Cyprus condition that was not included on December 17. He harked back to the winter 2004 Davos meeting with both Cypriot camps, Greece, Turkey, and Secretary Powell, which was followed by Greece and Greek

SIPDIS

Cyprus undermining the yes vote in Southern Cyprus. On the other hand, Babacan expressed GOT appreciation for Prime Minister Blair's very helpful comment about Cyprus during Prime Minister Erdogan's visit to London.

Handling Two Big Portfolios:  
-----

10. (C) In reply to the Charge's question about handling both his IMF/macro responsibilities and his new EU negotiator job, Babacan repeated his subordinates' earlier claims that he can handle it because the IMF program's structural reforms are front-loaded. Babacan said he spends 80 percent of his time on "structural reforms" and asserted there is significant overlap between those required by the IMF and EU reforms. In recent years, as the GOT has undertaken new reforms such as the banking law or changes in tax policy, it has always been careful to conform to the EU acquis in formulating the reforms. (Comment: What Babacan really means, when he says he spends 80 percent of his time on structural reforms, is that he spends much of his time pushing through reforms that few if any other ministers take ownership of, or worse, fighting rearguard actions to stop backsliding on reforms the GOT has already

committed to. Nor are the front-loaded reforms likely to take place according to the planned calendar, as the IMF Resrep has admitted to us. End Comment.)

#### Employment and FDI:

11. (SBU) The Charge asked how the GOT is tackling the unemployment issue. Babacan replied that the GOT's policy is to stick with the economic reform program, thereby creating an environment in which the private sector will be encouraged to create more employment. With between 500,000 and 700,000 people coming into the work force every year, the Turkish economy has to create more than this number of jobs to reduce the unemployment rate. He said the GOT is also working on micro-level reforms to allow business to operate better.

12. (SBU) Babacan then went into his oft-repeated description of GOT efforts to encourage FDI: mainly reducing the number of steps required to create a business, eliminating legally-sanctioned discrimination against foreign firms and senior officials' outreach to potential foreign investors, including the Prime Minister's recent trip to the Sun Valley conference. Babacan said he would like to see more greenfield investment by foreign firms, though most of them seem to prefer a local partner. (Comment: They prefer a local partner as an insurance policy against the anti-foreign investor judiciary and regulatory bureaucracy. End comment.) Babacan asserted that with only four years since the 2001 crisis, FDI typically is the slowest form of investment to materialize but also the slowest to pull out when there are problems. After years of FDI averaging an anemic \$1 billion a year, rising to \$1.6 billion in 2003 and \$2.5 billion in 2004, Babacan was optimistic that in 2005 it would grow to several billion as a result of several large privatizations and other transactions in process. He mentioned that Vodafone, for example, is keenly interested in the Savings Deposit Insurance Fund's sale of cell phone operator (and Motorola debtor) Telsim.

13. (C) The Charge expressed a willingness to work with Babacan to attract American companies. She is willing to highlight American company success stories in Turkey but also pressed Babacan to help solve the existing problems of American companies. Babacan cited the GOT role in helping to resolve Cargill's zoning problem. When the Charge raised Motorola, Babacan reviewed the history of Motorola having allied itself with the notorious Uzan group. He retold the story of the Uzan's Imar Bank fraud that required the Turkish Treasury to inject \$6 billion into a bank that supposedly had a total assets of \$500 million. Babacan claimed that the fact that the GOT had removed the Uzans from the scene shows the Government is serious about improving the business climate.

14. (C) The Charge emphasized the positive impact on the investment climate if the SDIF could reach agreement in its drawn-out negotiations with Motorola, and make it much easier to get a good price for the sale of Telsim. (Note: Press and other reports in recent days suggest that SDIF is seriously considering going ahead with the Telsim sale without first reaching a settlement with Motorola. This may be a pressure tactic directed at Motorola. If SDIF goes ahead without a settlement, it will undoubtedly not get nearly as good a sales price for Telsim, though it may minimize the inevitable criticism that SDIF settled too cheaply with Motorola. End Note. Babacan seemed to understand, but he turned it around, urging Motorola to settle with SDIF.)

#### U.S. Relations:

15. (SBU) Citing the importance of the U.S. for Turkey, Babacan said he has excellent relations with USG officials, particularly the U.S. Treasury. He mentioned his good relations with Secretary Snow, former U/S Taylor and the whole Treasury team. He also mentioned good contacts with the Council of Economic Advisors. MCELDOWNEY